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FISCAL IMPACT STATEMENT

LS 6945 | **NOTE PREPARED:** Jan 8, 2013
BILL NUMBER: SB 531 | **BILL AMENDED:**

SUBJECT: Property tax assessments and appeals.

FIRST AUTHOR: Sen. Eckerty | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** State & Local

<u>**Summary of Legislation:**</u> *Agricultural Land Assessments*: This bill provides that land is to be assessed as agricultural if the land could be devoted to agricultural use (if not zoned for industrial, commercial, or residential use) or if a building or other real property improvement that is devoted to agricultural purposes is located on the land. The bill provides that land that is zoned for (instead of purchased for) residential, commercial, or industrial use is not to be assessed as agricultural land.

Right of Way: The bill provides that for land that is being used for various right of way purposes, the value is be subtracted from the assessed value of a parcel without any action having to be taken by the property owner.

Homestead Property: This bill changes the definition of a homestead for purposes of the credit for excessive property taxes (the 1% rate cap), the standard deduction, the supplemental standard deduction, and any local homestead credit. The bill increases the amount of land that is considered part of the homestead real estate from one acre to five acres. It also provides that the homestead real estate includes real estate that is identified as a separate parcel or lot so long as the real estate adjoins the parcel or lot on which the dwelling is located.

The bill also specifies that a homestead includes any residential yard structure and any building that is located on the homestead real estate if it is used exclusively for the enjoyment or support of the dwelling and real estate, regardless of whether the structure or building is attached to the dwelling.

Appeals: This bill changes the time limit for the filing of a property assessment appeal from 45 days after the assessment notice date to 45 days after the property tax billing date (or May 10, whichever is later). The bill also repeals an outdated property tax appeal deadline law.

Taxpayer Representatives: It provides that the Department of Local Government Finance (DLGF) rules concerning tax representatives may not restrict a residential property owner who is an individual from appointing another individual as an agent to act on the owner's behalf in a property tax appeal to the property tax assessment board of appeals (PTABOA) so long as the agent serves without payment of any consideration.

Effective Date: July 1, 2013.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary*: The reclassifications of some property as homestead property and some property either to or from farmland would change the assessments and deductions for this property as well as the circuit breaker cap beginning with taxes payable in CY 2015.

Overall, gross AV would grow by about $2 B but net AV would decline by about $460 M under this bill. The reduction in net AV would result in a higher tax rate and a net tax shift among all taxpayers. The total reduction in net taxes for all taxpayers, including tax shifts and circuit breakers, is estimated at $13 M. Local taxing units and school corporations would see an increase in revenue lost to the circuit breaker caps estimated $11.4 M. The higher tax rates would also cause TIF proceeds to increase by about $1.6 M. Property tax levies for rate-controlled funds would be reduced by the product of the net AV loss multiplied by the fund tax rate. The estimated change in net taxes by taxpayer type in CY 2015 is shown in the table below.

Property Type	Estimated Net Tax Change	
Agriculture	-1,989,000	-0.3%
Apartments	470,000	0.2%
Homesteads	-46,724,000	-2.5%
Other Residential	14,526,000	1.9%
Other Real	19,883,000	1.1%
Personal Property	757,000	0.1%
Total	**-13,077,000**	**-0.2%**

Property with a gross AV of about $6.4 B would be reclassified as homestead property. This existing AV would now qualify for standard and supplemental standard deductions estimated at $2.5 B AV. Total assessments for agricultural use parcels would decline by about $145 M. Also, land that is part of non-agricultural parcels and assessed as farmland with an AV of about $689 M would be reclassified and assessed accordingly.

Homestead Property - Background: Under current law, a homestead is defined as a principal residence consisting of a dwelling and up to one acre of land plus decks, gazebos, and other residential year structures, if those items are attached to the dwelling. Swimming pools, even if part of an attached structure, are not considered to be part of the homestead. Improvements that do not qualify as homestead property are not subject to the standard or supplemental standard deductions, and they do not qualify for homestead credits. The circuit breaker cap for the non-homestead portion of the property is 3% rather than 1%.

Under this provision, beginning with taxes payable in 2015, all buildings that surround and support the dwelling would be considered part of the homestead qualifying property if they are on the homestead land. In addition, the 1 acre homestead land limit would be increased to 5 acres. The standard and supplemental deductions would apply as would any local homestead credits and the 1% circuit breaker cap.

Agricultural Land - Background: Currently, farmland assessments begin with the base rate per acre, which is $1,630 for taxes payable in 2013. The base rate is then adjusted by the soil productivity factor and influence factors to calculate the assessed value for a particular parcel. Farmland qualifies for the 2% circuit breaker cap. Land qualifies as farmland only when it is devoted to agricultural use. Land purchased for other uses does not qualify.

This bill would make several changes to the qualifications for farmland assessment. Under this bill, farmland would also include land that *could be* devoted to agricultural use, even when there is an agricultural building or improvement upon it. The bill would also prohibit the assessment of land as farmland if the property is *zoned* for other uses rather than basing it on it's proposed use at purchase.

These provisions would potentially increase the amount of land assessed as farmland for properties zoned as agricultural and would eliminate the assessment as farmland for properties not zoned as agricultural. Land that newly qualifies as farmland would be subject to the 2% circuit breaker cap while most disqualified land would probably be subject to the 3% cap.

Appeals: Under current law, assessment appeals must be filed within 45 days after the notice of assessment was sent. Under this bill taxpayers would have 45 days from the later of May 10 or the billing date to file an appeal. The earliest appeal deadline in a county would be June 24 of the payment year. In most cases where an assessor sends an assessment notice, taxpayers would have additional time to file an appeal under this provision.

Taxpayer Representatives: Under current DLGF rules, a taxpayer representative in a property tax appeal must be certified by the DLGF. Under this bill, the rule could not restrict an individual residential property owner from appointing any other individual, without compensation, to act as an agent in an appeal. This provision could encourage additional appeals.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Local assessors; Local civil taxing units and school corporations.

Information Sources: LSA Parcel-level property tax database.

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